



U.S. Securities and Exchange Commission

# Management Report to Accompany the Office of Inspector General Semiannual Report to Congress

for the period October 1, 2017 through March 31, 2018

May 2018

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October 1, 2017 – March 31, 2018

Section 5(b) of the Inspector General Act of 1978, as amended, requires the Commission to transmit to the appropriate committees or subcommittees of the U.S. Congress a Management Report, containing certain statistical tables and any comments deemed appropriate, to accompany the Office of Inspector General’s (OIG’s) Semiannual Report. This Management Report presents the required information for the reporting period of October 1, 2017 through March 31, 2018.

### I. Overview of SEC Audit Follow-up Activities

The SEC is committed to timely completion of corrective actions on audit recommendations. At the commencement of this semiannual reporting period, there were 43 open recommendations. During the period, management successfully closed 25 recommendations and one report with OIG’s concurrence. Corrective actions were completed on 100 percent of the recommendations in less than one year. At period-end, final action was pending on six reports.

### II. Reports with Monetary Savings

Sections 5(b)(2) and (3) of the Inspector General Act require the SEC Management Report to include statistical tables summarizing the progress that the agency has made in responding to audit, inspection, and evaluation reports containing “disallowed costs” and “recommendations that funds be put to better use.”

*Disallowed Costs.* Whenever OIG questions whether costs incurred by the agency are necessary, supported by adequate documentation, or in accordance with law, regulation, or contracts governing the use of funds, SEC management will review the facts and determine whether such costs should be officially disallowed. If the SEC agrees that such costs should not be charged to the government, the agency will then take appropriate action, such as commencing collection efforts to recover the disallowed costs.

Table 1. Status of Final Action on Audit, Inspection and Evaluation Reports  
with Disallowed Costs  
(as of March 31, 2018)

Audit, Inspection and Evaluation Reports	Number of Reports	Dollar Value of Disallowed Costs (in thousands)
A. For which final action had not been taken by the beginning of the reporting period	0	\$0
B. On which management decisions were made during the reporting period	1	\$0
C. For which final action was taken during the reporting period	0	\$0
(i) Dollar value of disallowed costs that were recovered through collection, offsets, property in lieu of cash, or otherwise	0	\$0
(ii) Dollar value of disallowed costs that were written off by management	0	\$0
D. For which no final action has been taken by the end of the period	0	\$0

On September 29, 2017, the Office of Inspector General issued a report on the SEC’s management of its data centers (“Audit of the SEC’s Management of Its Data Centers” (Report No. 543)). The OIG identified \$375,205 as questioned costs and \$2,778,882 as unsupported costs due to insufficient documentation. Management supplemented the data center contract file to improve documented support for contract price changes. Management also reviewed invoices to validate payments made. Based on the results of the review, and in consultation with the Office of General Counsel, management determined that expenditures were justified to monitor, troubleshoot and remediate certain issues and, therefore, there was not a sufficiently strong legal basis to seek recovery of the funds.

*Funds Put to Better Use.* Whenever OIG recommends specific dollar amounts that it believes can be saved by improving the efficiency of agency operations, SEC management will review the facts and determine whether to implement such recommendations. “Funds put to better use” refers to the specific dollar value of cost savings that the SEC has agreed can and should be implemented through appropriate corrective action.

Table 2. Status of Final Action on Audit, Inspection and Evaluation Reports with Funds Put to Better Use (as of March 31, 2018)

Audit, Inspection and Evaluation Reports	Number	Dollar Value of Funds Put to Better Use (in thousands)
A. For which final action had not been taken by the beginning of the reporting period	1	\$216
B. On which management decisions were made during the reporting period	1	\$2,699
C. For which final action was taken during the reporting period	1	
(i) Dollar value of recommendations that were actually completed		\$0
(ii) Dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed		\$2,535
D. For which no final action has been taken by the end of the reporting period	1	\$380

On March 31, 2016, the OIG issued a report on the SEC’s Student Loan Repayment Program (Report No. 534). The audit identified about \$216,000 in student loan benefits owed to the SEC by 17 former employees. While final action remains underway, as of March 31, 2018, the SEC had recovered \$103,376 and waived \$16,965<sup>1</sup> due to financial hardship. Payment plan balances totaled \$31,881 and the balance of claims referred to Treasury for collection totaled \$63,784.

On September 29, 2017, the OIG issued a report on the SEC’s management of its data centers (“Audit of the SEC’s Management of Its Data Centers” (Report No. 543)). The OIG identified \$2,698,584 in funds that could be put to better use with respect to the cost of kilowatt-per-hour rate increase and cost of monthly rental of power distribution units at the data center. In response to this finding, management determined that the costs resulting from the kilowatt-per-hour pricing changes for the data center were fair and reasonable in accordance with Federal Acquisition Regulation Subpart 15.4 and no further action is required. With respect to the power distribution units, management reviewed the risk of renting the equipment through the remaining life of the contract versus government ownership and agreed that purchasing the equipment would result in \$164,004 in funds that could be put to better use. Management is in the process of procuring the equipment.

<sup>1</sup> The amount waived has been revised from \$18,208 to \$16,965 due to a collection made by the Department of Treasury before a certain waiver was granted.

### III. Reports More than One Year Old with Pending Corrective Action

Section 5(b)(4) of the Inspector General Act, as amended, requires the SEC Management Report to include a statement with respect to audit reports on which management decisions have been made but final action has not been taken, other than audit reports on which a management decision was made within the preceding year. Table 3 presents the required information.

Table 3. Audits and Other Reports More than One Year Old  
(Reporting Period October 1, 2017 through March 31, 2018)

Report No./Title	Report Date	Status of Final Action
539, Audit of SEC's Compliance with the Federal Information Security Management Act for Fiscal Year 2016 (Nonpublic Report)	3/7/2017	18 of 21 recommendations have been closed with OIG's concurrence. The three remaining recommendations relate to cybersecurity training, skills, and incident management policies. While the SEC's Office of Information Technology has taken actions in each of these areas, additional work was ongoing as of March 30, 2018. OIT anticipates completing corrective action on these three recommendations no later than September 2018.